

FISCAL NOTE

Bill #: SB0345

Title: Revise tax increment financing district laws

Primary Sponsor: Mangan, J

Status: As Amended in Senate Committee

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$21,980	\$0
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	(\$21,980)	\$0

<input type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input checked="" type="checkbox"/> Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue

1. SB 345 allows a municipality to dispose of publicly held real property within an urban renewal area to a private person without public bidding, after a public hearing, based on a development agreement.
2. The proposal also allows a municipality to retain and use tax increment monies after the termination of the increment district if there is a binding loan commitment, construction contract or development agreement(s) that was entered into before the termination.
3. The proposal allows the municipality to enter into a development agreement with respect to use of the tax increment funds. The development agreement can include the acquisition, sale, lease or transfer and development of a parcel of land located in the urban renewal area. The development agreement may include provisions for a private entity owning or having an exclusive option to purchase the property without public bidding. The development agreement may only be entered into after a public hearing as provided in the bill.
4. SB 345 revises 7-15-4293, MCA, for adjusting a base taxable value for increment districts created after January 1, 2002, if bonds were not issued. The allowable adjustment is limited to a loss of taxable value following the granting of exempt status to property within the first year after the district was created.

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5. The proposal allows a municipality to enter into an assessment agreement. The assessment agreement would establish a minimum market value of a property. The minimum value established in the assessment agreement is only binding on the parties entering into the agreement and does not affect the Department of Revenue's (DOR) authority to determine value for property tax purposes.
6. Whenever the value established in the assessment agreement falls below the market value established by DOR, the individual would be liable for payment of a tax deficiency to the municipality. The assessment agreement establishes a lien on the property and is filed in the county clerk and recorder office.
7. The proposal clarifies the timing for which the taxable value of property associated with a tax increment financing district (TIF district) becomes "newly taxable property". It also clarifies that the growth in incremental value within a TIF district is not newly taxable property for other government units, but is exclusive to the TIF district.

Expenditures

8. To accurately identify both the real and personal properties within a TIF district, the department would require new fields for the Montana Ownership Database System (MODS). The existing Computer Assisted Mass Appraisal System (CAMAS) would not require updates.
9. The new MODS fields would also allow the department to more accurately capture the change in taxable value associated with a TIF district each year (newly taxable property). Capturing the TIF district newly taxable property information will assist the department in providing more reliable newly taxable property valuation information to local government units.
10. Programming time to create the new BEVS tracking field is 450 hours, which includes 50 hours for compiling and testing the new field. Creating the new BEVS screen will require 20 additional programming hours. In addition, DOA/ITSD would require 5 programming hours for restructuring the primary area of BEVS on the mainframe. Total in-house programming time is 475 hours.
11. The department would hire 0.27 FTE to complete the task.
12. Total personal services for the 0.27 FTE are a one-time cost of \$14,562 in FY 2006.
13. Additional one-time costs for operating and equipment expenses for 0.27 FTE are \$1,618 and \$5,800 respectively in FY 2006.
14. Total FY 2006 expenses are \$21,980 (\$14,562 + \$1,618 + \$5,800).

FISCAL IMPACT:

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
FTE	0.27	0

Expenditures:

Personal Services	\$14,562	\$0
Operating Expenses	1,618	0
Equipment	<u>5,800</u>	<u>0</u>
TOTAL	\$21,980	\$0

Funding of Expenditures:

General Fund (01)	\$21,980	\$0
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$21,980)
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\$0

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EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The proposal allows municipalities to retain and use funds remaining in a TIFD special fund or reserve fund after termination of the TIFD. Under current law, these funds would be distributed to all taxing jurisdictions based on mill levies. This could reduce the amount of revenue to other local governments including school districts (and the general fund) in the future.

TECHNICAL NOTES:

In the new amended section 5, (1)(B), beginning at line 13, the bill states, “The amount of the deficiency fee may not exceed the difference between the *minimum value expressed in the agreement and the market value established by the department of revenue.*” Property taxes are calculated upon the market value of a property after an associated tax rate and mill levy is applied. Although this section only specifies the maximum fee, rather than set the maximum fee at the difference between market value and the minimum value, the intent is probably to compare the new fee to actual taxes imposed. As written, the bill specifies that the maximum deficiency fee could be significantly higher than the property taxes imposed.